

FOND DU LAC COUNTY, WISCONSIN

December 31, 2008

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Fond du Lac County

July 22, 2009

To the Honorable County Board of Supervisors and the Citizens of Fond du Lac County, WI:

State law requires that all local governments publish at the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the annual financial report of Fond du Lac County, Wisconsin for the fiscal year ended December 31, 2008.

This report consists of management's representations concerning the finances of Fond du Lac County, Wisconsin. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of Fond du Lac County, Wisconsin has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Fond du Lac County, Wisconsin financial statements in conformity with GAAP. Because the cost of internal controls should outweigh their benefits, the Fond du Lac County, Wisconsin comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Fond du Lac County, Wisconsin financial statements have been audited by Schenck, S.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Fond du Lac County, Wisconsin for the fiscal year ended December 31, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Fond du Lac County, Wisconsin financial statements for the fiscal year ended December 31, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented immediately after the introductory section of this report.

The independent audit of the financial statements of Fond du Lac County, Wisconsin was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are available in the Fond du Lac County, Wisconsin separately issued Federal Awards and State Financial Assistance Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Fond du Lac County, Wisconsin MD&A can be found immediately following the independent auditor's report.

Profile of the Government

Fond du Lac County, Wisconsin incorporated in 1839, is located in the east central part of the state, at the foot of Lake Winnebago. Fond du Lac County, Wisconsin occupies a land area of 725 square miles and serves a population of approximately 100,716. Fond du Lac County, Wisconsin is empowered to levy a property tax on both real and personal properties located within its boundaries.

Fond du Lac County, Wisconsin operates under a County Board – County Executive form of government. The County Board exercises legislative control and the County Executive exercises administrative control over all County operations. Beginning in April 2008, the Board was reduced to eighteen members elected by district to two-year terms. The County Executive is also non-partisan and is elected to a four-year term. The County Board of Supervisors is responsible, among other things, for passing resolutions, adopting and amending the budget, and approving appointments to committees. The County Executive is responsible for carrying out the policies of the Board, for overseeing the day-to-day operations of the County, and for appointment of heads to non-elected departments.

Fond du Lac County, Wisconsin provides a full range of services, including law enforcement/public safety, health and human services, highway construction and maintenance, recreational and educational activities, planning and conservation activities, health care facilities, state court system support, and general administrative services.

The annual budget serves as the foundation for Fond du Lac County, Wisconsin financial planning and control. All County departments are required to submit subsequent year budget requests annually in September to the County Executive. These requests are the starting point for developing the proposed budget presented by the County Executive to the County Board in October each year for their review and adoption. The County Board is required to hold public hearings on the proposed budget and to adopt a final budget by late November each year. The budget is adopted at the fund/department level (e.g. Dept. of Social Services, Sheriff), but is prepared at the program/activity and line item detail level for review. Transfers of appropriations within a fund/department up to \$1,500 or ten percent of the aggregate approved budget, whichever is less, may be authorized by action of the Finance, Personnel and Economic Development Committee. Any other transfer or additional appropriation must be approved by the full County Board.

Budget to actual comparisons are provided in this report for the general fund and major special revenue funds. This comparison is presented on pages 25–28 as part of the basic financial statements. A more detailed budget to actual comparison for the general fund is presented in the supplemental information section of this report on pages 57–69.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Fond du Lac County, Wisconsin operates.

Local Economy

As has occurred nationally, the economy in Fond du Lac County began to weaken in 2008, however, there were no announcements of any significant plant closings. Job reductions did occur at Mercury Marine and in smaller numbers in several other businesses.

Mercury Marine is now the second largest employer in the county, behind Agnesian Health Care. Market demand has been fluctuating at Mercury Marine. Mercury Marine has been taking advantage of retirements to shrink its workforce but were also forced to do layoffs and reduce hours to respond to market issues. Agnesian Health Care continues to expand their facilities, thereby, increasing employment in the medical field and bringing more medical professionals to the county.

Following the J. F. Ahern Company expansion of their Fond du Lac facility in 2007 which added approximately 100 high paying jobs, they remained strong. Brenner Tank of Fond du Lac continues to see record sales in the stainless steel tank business, causing a need for an addition of a new office complex on their grounds resulting in increased employment.

The Milwaukee based Flight for Life Emergency Helicopter Response Teams began operation from a newly constructed hangar at the Fond du Lac County Airport in August, 2008. This has resulted in a significant reduction in response time to emergencies for the people of Fond du Lac County who will be transferred to Froedert Hospital. While safety is the most important benefit, we will also see a positive impact from the hangar construction and the addition of up to 16 full time and part time highly skilled positions for the crews and maintenance staff.

As a result of an expressed interest from Wausau-Everest, a southeast Wisconsin Airport Equipment Manufacturer to construct a research and development facility and a future assembly facility next to the Fond du Lac County Airport, County Board approved the development of an aeronautical industrial park in the northeast quadrant of the Airport. The needed land was purchased and development of the industrial park began in early summer 2008. Wausau-Everest began construction of the new facility in early fall and began operations at the new facility in February 2009. The R & D Facility will employ 12 people with the hope of future expansion as a result of a large order for new equipment that will service one of the country's largest airports. Due to the many needed approvals from the Federal Aviation Administration and local government this has been a very challenging process, however the County has enjoyed very good cooperation from its partners in this venture.

In April 2008 an announcement was made that a developer would be constructing a motel, marina and convention center on Lake Winnebago near North Fond du Lac. Development and construction costs have been estimated at more than \$30 million for all portions of the facility. It will have a banquet hall that would seat more than 500 people, meeting rooms and about 180 motel rooms. The number of boat slips in the marina has not yet been finalized, however all needed DNR approvals have been obtained. This much needed facility will employ more than 100 people and will have a significant, positive impact on the county's economy when it opens. At this time, the project is on hold until the Village of North Fond du Lac is able to pass a referendum to approve the Village's share of the project.

The largest business expansion in Fond du Lac County is the development of the Rosendale Dairy. During 2008 facilities were constructed to house 800 animal units. Construction began in 2009 to expand the herd to over 4,000 animal units. This large herd dairy operation has an estimated construction cost of over \$50 million and while numbers have not been released regarding employment an operation of this size requires a large number of full time and part time workers. There will be an additional economic impact on the farms and businesses that supply the feed and other needed items. The milk produced at this facility will help supply the cheese producing operations in Fond du Lac County thereby saving them the cost of trucking over long distances.

The economic development professionals in the county continue to expect modest plant expansions within the next 12 months which would increase jobs within the county. Plans are not yet firm enough for announcements to be made at this time. Overall, there is optimism that the County's economy will strengthen as we move into 2010.

Long-Term Financial Planning

As part of the budget process, the County Executive annually presents a five year capital improvement plan to the County Board for approval.

In May 2006, the County began receiving prisoners from other counties and the State of Wisconsin. Fond du Lac County now houses about 88 prisoners each day in its jail from either the State prison system or other counties in the state. This resulted in an annual revenue of over \$1,800,000. Ultimately due to Fond du Lac County's jail needs increasing each year, the number of available beds for lease to other counties was expected to decline annually, but so far the Sheriff has maintained the same level since 2007.

Several highway projects are part of the capital improvement plan, including the railroad grade separation and bridge replacement on Pioneer Road, which will positively impact the local economy. It will be a joint project with the City of Fond du Lac. \$6,000,000 in federal funds is expected to pay approximately 60 percent of the cost. Some state funds will also be available with the balance of \$3,000,000 to be split evenly with the City of Fond du Lac. Engineering of the project began in 2008 and construction is expected to start sometime in 2011 with completion as far off as 2012 or 2013.

Another significant project includes the replacement of the county's public safety radio system as part of the construction of an interoperable communications system to meet the new standard established by the Department of Homeland Security, to include narrow band capability by 2011. The system has six new towers with simulcast capability and has redundant backup capability since the spring of 2009. The total project cost is estimated to be \$4,000,000. The improvements will all but eliminate the radio communication dead spots across the county, thereby enhancing emergency response as well as officer safety.

A significant positive impact on the County budget beginning in 2009 is the State Shared Utility Revenue resulting from the construction and operation of almost 200 wind turbines within Fond du Lac County. When operational, the wind turbines will generate approximately \$642,000 annually of new revenue for the County. All currently planned wind turbines were operational by the end of 2008.

2008 in Review

The financial position of Fond du Lac County, Wisconsin is sound as of the end of fiscal year 2008. One measure of our financial stability is the amount of undesignated general fund at year end. As of December 31, 2008, the undesignated general fund balance was \$4,450,086, a decrease of \$182,049 from the prior year end. Our financial advisors recommend that we carry from 10-20 percent of the subsequent year's general funds operating budget as undesignated general fund balance. For Fond du Lac County, Wisconsin, that percentage is 11 percent. Outstanding debt at the end of 2008 was \$29,055,000 for capital projects, plus \$3,630,000 remaining on the funds originally borrowed in 2002 to pay off the unfunded pension liability to the Wisconsin Retirement System. That brings Fond du Lac County, Wisconsin's total outstanding general obligation debt at the end of 2008 to \$32,685,000, which is 9.3 percent of our legal debt limit set by State Statute.

The majority of departments, large and small alike, again returned 2008 budget surpluses to the general fund. Each department's diligent efforts in controlling costs and increasing revenues, wherever possible, are contributing factors to Fond du Lac County, Wisconsin's good financial position. Some county positions have been eliminated, some have been left vacant, and some have been filled on a delayed basis. A voluntary unpaid leave policy was started in 2001 and has been continued, generating approximately \$23,000 of salary/wage and related fringe savings, net of unemployment compensation, in 2008.

One large health and human services department, the Department of Community Programs, is responsible for returning a very significant budget surplus to the general fund of \$1,798,369, while the Department of Social Services returned a budget surplus to the general fund of \$312,349.

The Care Management Organization (CMO), with \$31,549,507 of total operating expenses, is the largest county department and is completely funded by State and Federal funding. Efforts are made to have the CMO operate as much like a private company as possible, and thus it is charged for building rent and indirect support services at market or full actual cost. This defrays the County's general fund operational costs. By the end of 2008, the CMO also had a surplus in their risk reserve of approximately \$6,800,000 which should keep it financially viable well into the future.

The Sheriff's Department returned a \$173,957 budget surplus to the general fund. In addition, the Health Department, Home Health and Personal Care Program combined, returned a \$25,586 budget surplus to the general fund. These budget surpluses resulted from a combination of some increased revenue sources, while controlling costs to keep them in line with the funding available.

Medical Examiner

In December 2005, the County Board approved the hiring of a Board Certified Forensic Pathologist to start a Fond du Lac County based medical examiner program that would provide autopsy services to other counties, similar to the arrangement that we had with Milwaukee County. With this new pathologist on board since February 2006 and the hiring of a second pathologist in January 2007, the performance of out-of-county autopsies has grown to average more than 7 per week. The county net share of revenue generated by an out-of-county autopsy is \$1,100, which helps offset the base salary of the pathologist

and other costs of the medical examiner program. Fond du Lac County is now contracting with 14 other counties and other counties have expressed an interest in becoming part of our system.

The 2007 remodeling of the morgue facility provided for expanded capability with two autopsy stations. There is hope that Fond du Lac County can become a full service regional medical examiner system within the next few years, with a goal of further offsetting Fond du Lac County's cost of providing that service to its own citizens.

The Medical Examiner returned a \$71,173 budget surplus to the general fund. This budget surplus resulted from a combination of increased caseload while controlling costs.

Virtual Clinic

Effective January 1, 2009, Fond du Lac County renewed its relationship with Agnesian Health Care, for a health program termed the "Virtual Clinic". Through an agreement with Agnesian Health Care, two nurse practitioners exclusively serve employees of the County. Since this is a contractual arrangement, there are savings averaging over 40 percent annually. In order to provide incentives for employees to use the Virtual Clinic for their medical care, there is no cost to the employees for visits to the nurse practitioner. The Virtual Clinic concept did not need to be negotiated in the union contracts since the program is optional. Because of the incentive of no co-pays or deductibles for using the Virtual Clinic, employees are accessing the program, thereby continuing to save the County a significant amount of dollars. Nurse practitioners are trained to spend more time with patients assessing their over-all health and educating them on improving health and wellness practices through better diets, exercise, and responding to their changing physical condition. Addressing health issues before they become serious could also help save costs. A managed care program for diabetes was offered in 2008.

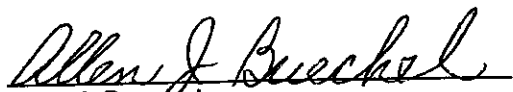
Health Insurance


Health insurance costs continue to have the most significant negative impact on our budget. In 2008, the employee health insurance premium co-pay rose to 13 percent but if the employee has a health risk assessment, it is decreased to 12 percent. In 2010 the premium increase is expected to be no more than 9 percent.

In 1999, I publicly stated in my budget message that the increased cost of medical care, and the resulting impact on health insurance, if left unchecked will undermine every local government's ability to provide services to the people they represent. And that, in fact, is what has happened. Fond du Lac County Administrative Staff has worked hard with insurance professionals to find ways to reduce premium costs through employee awareness and wellness programs, preventive health education, benefit restructuring, and funding. Staff continues to search for new ways to reduce the cost of medical care, such as the Virtual Clinic. In conjunction with the wellness initiatives, the Asheville Project was implemented in the fall of 2007. It is a medical model that monitors and coaches people with diabetes to achieve better health and quality of life. Beginning in the fall of 2009, a second disease management program on hypertension will be available to employees.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department and the fiscal services staff of all County departments. Credit must also be given to the Fond du Lac County, Wisconsin Board of Supervisors and the Finance, Personnel and Economic Development Committee for their unfailing support for maintaining the highest standards of professionalism in the management of Fond du Lac County, Wisconsin's finances.


Allen J. Buechel
County Executive


Karen A. Kuehl, CPA
Finance Director

OFFICIALS OF THE COUNTY OF FOND DU LAC

County Executive ----- Allen J. Buechel

COUNTY BOARD OF SUPERVISORS 2008-2010

Chairperson ----- Martin F. Farrell
Vice-Chairperson ----- Judy Goldsmith
Second Vice ----- Herbert G. Ottery

FINANCE, PERSONNEL AND ECONOMIC DEVELOPMENT COMMITTEE

Herbert G. Ottery, Chair
Judy Goldsmith, Vice-Chair
Thomas E. Dornbrook
Brenda A. Schneider
Martin F. Farrell, County Board Chair

HIGHWAY, AIRPORT AND FACILITIES COMMITTEE

Joseph W. Koch, Chair
Robert M. Fox, Vice-Chair
Karen Madigan
John E. Muentner, Sr.
John G. Zorn

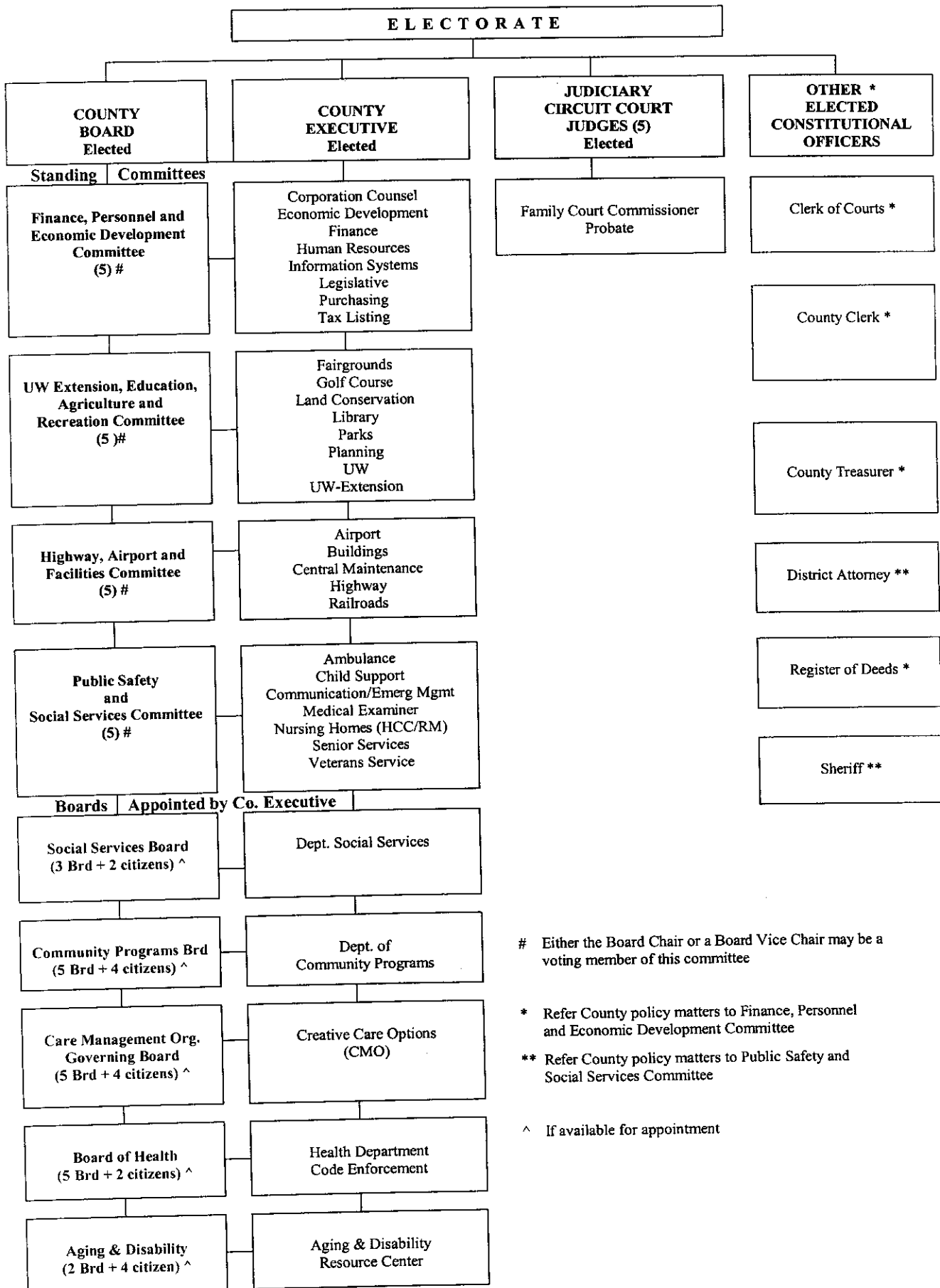
PUBLIC SAFETY AND SOCIAL SERVICES COMMITTEE

Melvin E. Heller, Chair
Donald O. Skog, Vice-Chair
Wilmer R. Abitz
Judy Goldsmith
Richard R. Wetzel

UW-EXTENSION EDUCATION, AGRICULTURE AND RECREATION COMMITTEE

Gary L. Boyke, Chair
Sherry Behnke, Vice-Chair
James D. Kiser
Herbert G. Ottery
Richard W. Stokely

**ORGANIZATIONAL CHART - 18 COUNTY BOARD SUPERVISORS
FOND DU LAC COUNTY, WISCONSIN**



Either the Board Chair or a Board Vice Chair may be a voting member of this committee

* Refer County policy matters to Finance, Personnel and Economic Development Committee

** Refer County policy matters to Public Safety and Social Services Committee

^ If available for appointment

FOND DU LAC COUNTY
FINANCE DEPARTMENT PERSONNEL

Director of AdministrationEllen C. Sorensen
Finance Director Karen A. Kuehl, CPA
Accounting Services Coordinator..... Dorothy A. Soda
Payroll Coordinator Ann C. Lallier
Account SpecialistSusan J. Bruins
Account Clerk II Cecelia A. Achterberg